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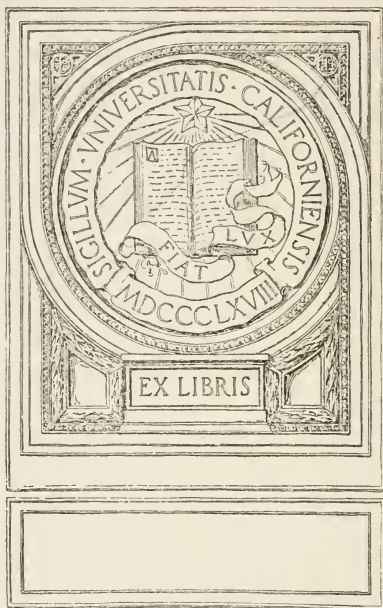


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THE
PHILOSOPHY
OF
BOOKKEEPING

BY
GEORGE RADFORD, M.A.

J. M. DENT AND SONS, LTD.,
LONDON AND TORONTO.



This book was printed before the Budget of 1922 appeared, but was published too late to save the Government from the Income Tax mistake which has been made! The bookkeeping of the State should be at least as good as that of our best commercial practice. But would any accountant of repute, studying our national deficit of about 8,000 millions, be satisfied with the proposals which have been made for its liquidation?

UNIV. OF
CALIFORNIA

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THE PHILOSOPHY OF BOOKKEEPING

I AM making a large claim for bookkeeping when I call it by the name of "Philosophy." But I hope to show that it is one, not merely because it is a collection of laws or principles belonging to a definite department of knowledge, but because it fulfils a particular function in many, if not all, of these departments. It holds a mirror up to human nature in many ways and thus enables us to see the evils or the blessings of certain habits, as well as the dangers and difficulties of general life; and it provides a chart from which we may learn the fairways to traverse in our various voyages through the world.

If, then, there is a philosophy of aim, I submit that there is also one of method in this art, science or craft. At present it is quite a common thing to be told by a clerk who has attended classes in this subject which is to be the basis of his future life-work that upon beginning to discharge the duties of his office his first task was to endeavour to forget all that he had been taught. I submit, however, that there are no theoretical principles to be laid down in any school or college at variance with those upon which a clerk is called upon to act in his practical work. And, therefore, I shall venture to discuss some of the dogmas which text-books enunciate with a view to compassing their disuse in favour of better ones. And, when I have done this, I hope that those who know methods better still than those which I propose will disclose them in order that this fundamental function of all civilised life may become perfected.

On the very threshold of the subject we are confronted by that fundamental fact in all philosophies, the me and the not-me, the self, or *ego*, and the rest of the universe. The principle of the cash account is that of the conscience: one faces the fact of the empty pocket, while the other is making an end of cant. And the empty pocket is a social fact, not an individual one: you may keep your hands in those empty pockets, but the state is upset. In a certain sense facts are facts, whether recorded or not, and some of the most interesting kinds of bookkeeping, often the most painful, are those records which are not set out by the individual himself, but are discovered by others and are audited by the outside world. "D.," say Messrs. Rowntree and Lasker ("Unemployment": Macmillan), "is a sturdy, honest working-man, who can turn his hands to most things, from cab-driving to hawking or field work, and who has seldom been idle for long together. But his age (57) is against him, and it is eight years since he last had regular employment. Then he certainly had a stretch of it—twenty-five years with one employer, the head of a firm of painters." This is the housekeeping account of his home for four weeks in 1910:—

INCOME :				EXPENDITURE :			
	£	s.	d.		£	s.	d.
Man : unemployed -	-	-	-	Food -	1	10	3½
Wife : charing -	-	7	-	Rent -	-	11	-
Son -	-	18	-	Clothing, &c. -	-	2	1
Daughter -	-	17	3½	Fuel and Light -	-	5	11½
Grocery ticket -	-	4	-	Paid debts -	-	8	6½
Deficit -	-	14	1½	Tobacco -	-	1	10
				Sundries -	-	-	8½
	3	0	5		3	0	5

The deficit shown is made up of the following items obtained "on trust":—

s.	d.		s.	d.
		Food -	4	3
		Rent -	8	3
		Fuel -	1	3½
		Tobacco -	-	4
			14	1½

8s. 6½d., however, has been paid toward earlier arrears and the period, therefore, shows a net deficiency of a further 5s. 7d. The net sum spent to maintain this family of four works out at 11s. 7d., or less than 3s. each a week, and I need not say that the dietary falls far below the minimum required for health and strength.

The bookkeeping here of these devoted students goes more directly to the root of things than long and pitiful

speeches or writings could do. I think that they are as interesting in their own way as are the reports of successful joint-stock companies. They are really a part of our great national budget and, more particularly, of our national debt. They are a type of the bad debts we make and, like all bad debts, should give us anxiety until they disappear. But no cash account can ever disclose its whole meaning: we have to read so many things into the clearest of figures. We may, of course, guess incorrectly when we read the figures upon which the physical life of others depends. We have proof of the misery which may sometimes attend the bloated incomes of the rich. But it is safe to say that a certain minimum is needed to enable the physical to become the home of mental and spiritual life. The prisoner-poet may write "my mind to me a kingdom is," but ought we to expect Mr. and Mrs. D. to have minds at all with such a cash account?

Fortunately, both mind and soul can rise superior to these adverse balances, but it is then unquestionably that the citizens as a whole, the neighbours of the poor, suffer more than the poor themselves in some very serious ways. Bad debts such as these must lead to national bankruptcy some day if allowed to go on.

Our first bookkeeping fact, then, is this: we may keep books for ourselves or we may examine what others do and learn the truths which those outside figures may teach. We must at the same time recognise that in all bookkeeping the figures must be looked at both from within and without. Every credit is a debit somewhere and every debit a credit. If I pay sixpence for a loaf, the coin leaves me and must be entered as leaving me: but the baker must make an entry, which records the exact opposite: he must show in some way that he has received it, if his books are to be correct. The world, indeed, is itself a great clearing house for the debits and credits of life, and it would well repay us all to examine the social waste and depreciation involved in many of our methods with a view to their improvement. I speak of peace methods: war is a great fire and is all loss unless we can rebuild in some better form.

The principle which underlies the idea of bookkeeping is no less a thing than honesty itself. And honesty has an influence more far-reaching than we are apt to believe, for it is based upon veracity, and kindness and help depend upon it. Much suffering is caused to our neighbours by our financial mishaps, and these are brought about more often by ignorance

and the happy-go-lucky spirit than by a set purpose towards dishonesty or selfishness. It is impossible to estimate the misery which is caused by bad debts, and these are in the great majority of instances due to that lack of balancing power or facility—that absence of carefulness as to debits and credits, receipts and expenditure—which is essential to financial stability. A man in some retail business knows that he is making a gross profit or a certain percentage on his turnover. But he is often content to leave the matter there, and remain indifferent to his expenses, because it is somewhat troublesome to keep the necessary books. And such a man should remember that it is dishonest to go on in business without making this needful examination, whatever trouble it may involve; for to shut one's eyes to the net result of the trading and merely wait, as a gambler might, for the result of a race, until circumstances themselves audit the accounts, is to become own brother to a cheat.

But, besides being dishonest to one's neighbours, to act in this way is utterly unwise and unjust to oneself. The use of bookkeeping primarily is to guide the trader to success. The dealer who has let his creditors in for a bad debt might have avoided causing them this loss, and suffering the pain of it himself, if step by step, week by week and month by month he had watched results, and by means of the information which his account books gave him had addressed himself to buying or selling better, obtaining more customers, or reducing some unnecessary expense. The unexpected result of such examination might be restricted credit to some thoughtless or unprincipled debtor; it might indeed cause the wise resolve to deal for cash only and give no credit at all.

The results of good bookkeeping are very various and are not confined to those detailed above; but chief among them is the effect upon the tradesman's own habits and character. Indeed, bookkeeping as an educative and controlling influence need not be confined to the tradesman alone. If a navvy could be prevailed upon to keep a real cash-book he would certainly think more seriously of the inroads which beer and tobacco make upon his income and upon the funds which are available for the wife and children. It is only by rigorously writing down each item, and at the end of a certain period, a week or a month, adding up and considering carefully the unexpected and sometimes staggering sum of such items, that habits—which can generally be described in the language of cash—can be watched, criticised and altered. In agriculture

the right use of bookkeeping means a great deal more than the books themselves seem to claim, for when a farmer has once learnt how to handle them with some facility he has in his possession as powerful an instrument for lucrative farming as a knowledge of breeds and soils and seeds can give him. He can by means of figures learn the real bearing of his manuring, his stock rearing or his milk production. And, best of all, in the interests of the country in general as well as of himself in particular, he may learn the true cost of small and isolated dealings, freights on small lots, and petty separate transactions. A farmer, however shrewd, on the old system has neither knowledge nor experience enough to comprehend the bearings of large co-operative movements. The statements of account are not effectively intelligible to him any more than if they were written in the best Greek prose.

THE CASH-BOOK.

If the cash-book, then, is a desirable institution even in the home of every working-man, it will be apparent that it becomes the foundation of every system of books. It is complete in itself for certain purposes; for, when it is used by persons in receipt of wages, salaries or settled incomes of any kind, it affords all the assistance they require in order to manage their finances in safety and with advantage. It should, therefore, be a national instruction—inculcated early and in every school just as regularly as Euclid or the first declension—that a cash-book is arranged upon certain definite unalterable lines and contains within itself mathematical truths as unvarying as the geographical poles, as full of meaning as the words “positive” and “negative,” and just as serious and important. If a man has no money in his pocket he cannot pay anything out, and the pocket is the most universal cash-box we have. It may remind us, therefore, that, whether we use a system of books or not, we are ever carrying on the transactions of which bookkeeping would be the record, and that full and empty pockets have invariably the same meanings to us, and this makes methods of correct bookkeeping invariable too.

It becomes important, therefore, on the threshold to adopt some universal plan for showing the results of money transactions. When a subject is looked at from the point of view of money only, whether the subject be wheat, cattle, hay, root crops, or, that which we are considering first, cash itself, this subject is called an Account. And when in a system of bookkeeping these accounts are examined, we have to

remember two fundamental and opposite truths, and two only—an account can have money entrusted or given to it, and, on the other hand, removed or taken from it. When we entrust money To an account we place it on the *left*-hand page or side of a page, and write at that side Dr., to show that we *debit* the account with the sum in question. When we take money FROM an account we enter the same on the *right*-hand page or side of a page, and write at that side Cr., to show that we *credit* the account with the sum in question. It is of the utmost importance that we should begin by learning this fundamental rule, principle, or convention thoroughly, and in all our practice or illustrations should keep it continually before us. The cash, therefore, which we have in our pocket, till, cash-box, or stocking, as the case may be, is written down on the left under the symbol Dr., and on the same side are placed any further sums which we may receive from any source, so that the addition of all the items on this Dr. side may show us the total of all the money we had to begin with and have since received. On the other side all the payments we make of every kind are entered under the symbol Cr., and the total of that side shows us what we have paid out, spent, loaned, or in any way parted with.

It is then very easy to see that the difference between these two sides represents what we have left, the remainder or *balance* in our hands. This balance changes with every change made on either side. If we receive more the balance rises, if we spend more it sinks; but it is quite clear that we cannot in hard cash spend more than we have got; so that the Cr. side can never become larger than the Dr. side; it can only become equal to it, and then our balance becomes NIL, we have nothing left.

Let me take a simple illustration of the working of the cash-book. A farmer with £500 capital pays £200 for the various kinds of stock on a farm, He sells some of the cattle, pigs, and sheep; does a daily business in milk and eggs; parts with some surplus hay and straw, as well as a little wheat. He pays his wages weekly, buys a plough and some other machines and tools, purchases cake and artificial manures, incurring freight on both purchases and sales, and draws a monthly sum for household expenses. The transactions may be set out thus, and I may add here that it has long been a convention that the entries on the Dr. side are prefaced by the word *To* and those upon the Cr. side by the word *By*. If the two sides of the Cash Account are on one page of the book

the word *Cash* in the centre is sufficient. But if a page is given to each, as is usually the case, it has become a convention to head them as shown, "cash" for the Dr. side; "contra" for the Cr.

Dr.				CASH.				CONTRA.				Cr.			
1920.				£	s.	d.	1920.				£	s.	d.		
Jan. 1	To Cash	-	-	500	-	-	Jan. 1	By Stock	-	-	200	-	-		
7	Cattle	-	-	45	-	-	2	Cake	-	-	9	-	-		
9	Hay	-	-	19	-	-		Wages	-	-	5	-	-		
15	Sheep	-	-	54	-	-	4	Plough	-	-	7	7	-		
16	Pigs	-	-	7	10	-		Manures	-	-	8	6	8		
23	Straw	-	-	12	6	-	9	Wages	-	-	5	-	-		
	Wheat	-	-	24	-	-	16	Do.	-	-	2	1	6		
30	Milk, Eggs, &c., for month	-	-	23	9	6	19	Repairs	-	-	5	-	-		
							23	Wages	-	-	6	6	-		
							29	Freights	-	-	15	-	-		
							30	Household	-	-	5	-	-		
								Wages	-	-	412	4	4		
								Balance	-	-	685	5	6		
				685	5	6									

This crude example, though it indicates correctly the working of a cash-book, draws our attention to points which would not be visible if the book were used only for the navy's weekly expenditure to which I have referred. A sum of more than £400 should not be lying in a cash-box or drawer; the item of £200 does not indicate the varieties of the stock; the payments for plough, for wages, and for repairs are of a different order from the stock and food and manures; good bookkeeping should give us readily some clear information on all these separate matters. But the cash-book has this preliminary advantage: it shows us at once the meaning of Debit and Credit, and it tests the correctness of our knowledge promptly by simply asking us to count up our cash and check it with the balance in the book.

Returning to the simpler form of cash-book such as I suggest we would all of us use for daily guidance, it is fairly obvious that a neatly kept account may be made quite sufficient in itself for practical purposes. The total expenditure upon any one item can readily be abstracted either weekly or monthly, and it is better to do this systematically and with determination than to attempt more elaborate bookkeeping at the risk of failure. It is more important for a householder to think about the bearing of the results of his simple cash account than it is to elaborate a complete system and then forget all about its lessons. And I am pressing this point here, because there is abroad constant reference to what is called "single entry" as opposed to "double entry," with a view to the exaltation of the latter. I submit that there is nothing gained by making this distinction. Bookkeeping

must be varied to deal with each case as it arises and in regard to special needs. There is nothing at variance with complete scientific treatment in the fact that one operation well carried out supplies all the information or guidance needed by the person using it. The resources of bookkeeping are by no means crippled if we confine ourselves to one book, the cash-book.

If the householder himself has sufficient need for the information, he may carry his work on with advantage. He may prefer to see methodically set out a complete analysis of his expenditure. Suppose we take a household whose total weekly earnings come to £6 and divide the expenditure into the five headings that Mr. Rowntree used in his sad case. The cash book might then read:—

<i>Dr.</i>				CASH.				<i>Cr.</i>			
To Cash - - -				£	s.	d.		By Food - - -	£	s.	d.
				6	-	-		Rent - - -	3	15	-
								Clothing - - -	1	-	-
								Fuel and Light - - -	-	10	-
								Sundries - - -	-	15	-
								Balance - - -	-	-	-
				6	0	0			6	0	0

If there should be a balance left the account for the new week will begin with that. But it will be observed that if we want an annual account showing the total expenditure under each head, it will be a tedious process to extract these items from 52 weeks. The simplest means, therefore, of attaining our object is to rule the cash book with as many columns as we require—in this case five—and simply add the columns up as we go along and complete the total at the end of the year.

I scarcely need point out that for many purposes a book such as this is all that is required. The columns for receipts may conceivably be more numerous than those for expenditure and no system for such a financial need could be more safe, accurate or complete. The columns, as we shall see later, become actual labour-saving machines; and compared with the ordinary office routine are almost automatic in the all-important point of accuracy.

The items in a householder's budget will vary continually and the necessary columns will become fewer as rent, rates, and taxes increase. But it is all the more needful then for the citizen to study and draw his lessons from the figures and by their help decide upon his line of action. But it would be better still if all citizens could study similar figures at the

same time and take joint action towards a better outlook. We all feel desperate when prices go up and qualities and quantities down, while the income remains the same or shrinks. I am not trying to teach economics here, but I am sure that the study ought to begin at home.

Although it is true that for certain purposes the cash-book and its analysis columns can be made into complete book-keeping, it is evident that for ordinary business it is not enough. In fact, in such "ordinary business," though it may be brought into requisition in getting things started, it is not the first book required by the operations of the commercial venture. We have to get our services or goods to the client or customer before we can expect to enter in the cash-book his payment for them. But, as we commence with the cash-book because of its primary use, it is now better to proceed to the *Ledger* in order to discuss the more complete analysis of its working which the columns themselves do not bring about. If we determine to make a list of certain items in the cash-book we must carry them away to some convenient place and at a suitable time add them up. This suitable place is the *Ledger* and the act of carrying the items from one volume to the other is called "posting." And since we have to use this *Ledger folio* often and to refer to it and "check" the postings to confirm their accuracy, there is a column placed beside the cash column in both books in which the folio number is recorded. The cash-book folio is put in the *Ledger* column and the *Ledger folio* in that of the cash-book.

Now, when we have decided to analyse or divide our cash-book expenditure into various sections or headings, such as *wages*, *food*, and the rest, we "open" in the *Ledger* certain "nominal" accounts under those headings, *e.g.* :—

Dr.					Food.					Cr.					393
Date		folio	£	s.	d.	Date		folio	£	s.	d.				

Here we come upon the most important of all the principles of bookkeeping, with which the student must become familiar unless his life is to become a burden to him. He might at first, perhaps, gain some relief if he were to begin by personifying in his own mind these various accounts. He might begin with the Cash Account and treat it as a personage to whom has been entrusted a certain sum, say, £6, in the case which we have been considering. At the end of the week he

examines this personage concerning the money entrusted to his care and finds that under the householder's own authority he has parted with £3 for food, 15s. for rent and so on. Having then "opened" the accounts for these and "posted" them, these new beings, Food and Rent, and the rest, are occupying the place which Cash originally took and are debited by this act of posting with the various sums with which cash has parted.

These said items are, as I have said, *debited* to these new "nominal" accounts; that is, they are placed on the side of the account *opposite* to that which they occupied under Cash. The student will see at once that if Cash has lost £3 and Food has obtained it, the fundamental difference of losing and getting is perfectly recorded by placing the items on opposite sides of the account. If then we "take out," *i.e.*, make a list of, these balances in the first week, we shall see that the Ledger balances are identical with the original cash items, but are upon the opposite side, appearing thus:—

Dr.					Cr.			
Food	-	-	-	£ 3	Income	-	-	£ 6
Rent	-	-	-	s. 0				s. 0
Clothing	-	-	-	15				d. 0
Fuel, &c.	-	-	-	1				
Sundries	-	-	-	0				
				10				
				15				
				6				6
				0				0
				0				0

But, suppose that the 15s. under "sundries" had not been spent, there would have been this sum left in hand with which to begin another week, and the "sundries" would have to be replaced by "Cash, 15s." The total of the balances, however, would have remained the same, and the list of all the balances open would have been, although in a very modest way, the "Trial Balance," which is the test of accurate bookkeeping. The student should make himself clear upon this subject before going further. If he begins and ends with a Cash-book, he must balance that Cash-book and the sum unspent should be in the Cash drawer. But, if he posts every item in such Cash Account—except the sum which is his balance and is lying in the drawer—to the Ledger, and to the side opposite to that on which it appears in the Cash-book, Dr. to Cr. and Cr. to Dr., the various balances in the Cash-book and Ledger together must balance each other, or some error must have occurred. There is no difference of principle here between single and double entry; there is nothing but the difference between what is complete in itself and that which

is needlessly elaborate because it is prepared for further developments. But it is well to remember, in whatever developments are necessary, that the posting of separate items to a nominal account, where the analysis by columns is convenient, is a wasteful process. The biggest set of books in the world, and the smallest, such as Mr. Rowntree's audit of Mr. D., are founded upon the same method when we come to fundamentals.

The student will observe, however, that this system sets no limit to its powers of analysis. If a man prefers to enter separately every sixpence, every penny indeed, spent upon a paper or a box of matches, he may do so, and either carry the entry to one of his innumerable cash-book columns, or post his items to any number of separate accounts. He may even differentiate, if he has the whim to do so, between wax vestas and safety matches in his cash columns or in his ledger, and dwell upon the annual result. The limit to good bookkeeping is co-terminous only with his or her desire for information. Rosa Dartle would have required either an enormous cash-book or a large ledger when it came to an analysis to satisfy her.

I want to tempt everyone to become his or her own bookkeeper, and by this I do not mean that each one should be his own clerk, cashier, or stockkeeper, but that all should be conversant with the best practice and able to guide the staff to proficiency. What a difference this would mean in thousands of offices and homes in which vain gropings are made by the young of both sexes, and nausea supervenes upon intolerable chaos! But it follows, in my opinion, that if mankind is to be tempted into adequate bookkeeping, the simplest methods must be presented, and all wooden, rule of thumb dogmas must be avoided. I shall have to tilt at some of these later; but here on the threshold it is necessary to say that in innumerable instances the cash-book and the ledger afford all the media that are required. I cannot urge too often that every unnecessary entry in any book is one more risk of error; and that to make three entries, as is often done, where one is sufficient, is foolish in the extreme. There are millions of cash receipts and payments for which there is no more need of journalising than there is in taking money over the counter: and yet the sticklers for routine—sticklers for their own ill-thought-out routine—would introduce the journal to satisfy their yearning for red tape rather than for simplicity, speed and accuracy. Let them dub the Cash-book the Cash Journal if they like, as long as they avoid the futilities of their journal system.

A farmer or a business man of any kind, however, as I have said, cannot guide himself fully in the conduct of his operations if he confines his bookkeeping to the entries in the cash-book. He must keep himself informed upon the results of his transactions, and cannot do so effectively if he is compelled to take out the details of the entries to learn the totals from time to time. For this reason the various classes of payments are carried as they occur from the Cash-book to this other book called the Ledger, and are there arranged under a series of accounts. These accounts are instituted under no unchangeable rule: they merely represent the different kinds of information which a man wants to obtain readily at any time. It may be that he wishes to know how much he has spent on wages, manures, or freights. It may be that he is anxious to learn what the total receipts are from his sales of fat stock, hay, or milk. He, therefore, opens such accounts in his ledger as will give him this information.

I will take the cash-book entries to try to make this matter clearer, remembering the use of columns as stated above.

The farmer has entered in his cash-book the sum of £500 with which he began business. This, therefore, is his original capital, and must be placed to an account by itself, for this is the sum which by being either increased by profits or reduced by losses will mean success or failure. This account is opened in the ledger thus:—

<i>Dr.</i>										<i>Capital.</i>										400 <i>Cr.</i>		

The page or folio of the cash-book—1 in this case—is placed against the ledger entry, and the folio of the ledger—say 400 in this case—is put in the cash-book in order that the account may be traced promptly. This operation is called “posting” as I have said—this analysis or carrying of an entry in one book to its appropriate position in the ledger. It will be found to have useful and interesting results. I must point out again that fundamental rule in posting, namely, the placing of the sum posted to the opposite side in the ledger to that in which it appears in the cash-book. This is our sum of £500 looked at from its origin, and of course details as to this origin will be fully entered in the Ledger. I am in the meantime treating it as the farmer’s method of keeping accounts with himself. He has placed £500 in his Cash-book for use, and if he has not borrowed it from anybody it

represents his own capital—the money with which he began business.

With £200 of this capital he purchased stock, and, though it is important to keep careful accounts of the different kinds of live stock, for our present purpose we will look upon cattle, sheep, and pigs as one and keep them in one Ledger account. Seeing that he sold certain items of this live-stock on different days in January, the accounts when posted will look like this:—

<i>Dr.</i>				<i>Stock.</i>				<i>300</i> <i>Cr.</i>							
1920. Jan. 1	To Stock	-	-	1	£	s.	d.	1920. Jan. 7	By Cattle	-	-	1	£	s.	d.
					200	-	-	15	" Sheep	-	-	1	45	-	-
								16	" Pigs	-	-	1	54	-	-
													7	10	-

The next account which he may find it convenient to open will be one for hay, straw, cereals, root crops, &c.; another he may devote to milk, poultry, eggs, &c.; a third to cake and manures; a fourth to implements and tools; a fifth to repairs and petty expenses; one also to wages, one to freights, and finally one to the expenses of the household. These when opened and posted up will appear as follows:—

opened and posed up will appear as follows:—										310				
<i>Dr.</i>				<i>Crops.</i>				<i>Cr.</i>						
				£	s.	d.	1920. Jan. 9 23	By Hay	-	-	1	£	s.	d.
								" Straw	-	-	1	19	-	-
								" Wheat	-	-	1	12	6	-
												24	-	-

<i>Dr.</i>										<i>Milk, Poultry, &c.</i>										<i>320</i> <i>Cr.</i>					
										£ s. d.										1920. Jan. 30					
										By Milk - -										1 £ s. d. 23 9 6					

<i>Dr.</i>				<i>Cake, Manure, &c.</i>				<i>330</i> <i>Cr.</i>			
1920. Jan. 2	To Cake	-	-	1	£	s.	d.				
	Manures	-	-	1	9	-	-				
					8	6	8				

<i>Dr.</i>				<i>Implements and Tools.</i>				<i>340</i> <i>Cr.</i>			
1920. Jan. 4	To Plough, &c.	-	-	1	£	s.	d.				
					7	7	-				

<i>Dr.</i>				<i>Repairs and Incidental Expenses.</i>				<i>350</i> <i>Cr.</i>			
1920. Jan. 19	To Repairs	-	-	1	£	s.	d.				
					2	1	6				

<i>Dr.</i>				<i>Wages.</i>				<i>200</i> <i>Cr.</i>			
1920. Jan. 2	To Wages	-	-	1	£	s.	d.				
9	Do.	-	-	1	5	-	-				
16	Do.	-	-	1	5	-	-				
23	Do.	-	-	1	5	-	-				
30	Do.	-	-	1	5	-	-				

Dr.				Freights.				360 Cr.			
1920.					£	s.	d.		£	s.	d.
Jan. 29	To Freight -	1		6	6	-					
Dr.				Household Expenses.				370 Cr.			
1920.					£	s.	d.		£	s.	d.
Jan. 29	To Cash -	1		15	-	-					

The Cash-book itself will then appear thus:—

Dr.				Cash.				1 Cr.			
1920.					£	s.	d.	1920.			
Jan. 1	To Cash -	400	500	-	-	-		Jan. 1	By purchase of		
7	Sale of cattle -	300	45	-	-	-		Stock, &c. -	300	200	-
9	Hay -	310	19	-	-	-		Cake -	330	9	-
15	Sheep -	300	54	-	-	-		Wages -	200	5	-
16	Pigs -	300	7	10	-	-		Plough, &c. -	340	7	7
23	Straw -	310	12	6	-	-		Artificial			
	Wheat -	310	24	-	-	-		manures -	330	8	6
30	Milk, Eggs, &c.,							Wages -	200	5	-
	for month -	320	23	9	6			Do. -	200	5	-
								Repairs, &c -	350	2	1
								Wages -	200	5	-
								Freights -	360	6	6
								Household -	370	15	-
								Wages -	200	5	-
								Balance -	-	412	4
										685	5
											6
Dr.				Cash.				Cr.			
1920.					£	s.	d.		£	s.	d.
Feb. 1	To Balance -	-	412	4	4						

The balances of all these accounts will then be found to be—

Dr.				Cr.			
		£	s.			£	s.
Stock -	-	83	10	Capital -	-	500	-
Cakes, &c. -	-	17	6	Crops -	-	55	6
Implements -	-	7	7	Milk, &c. -	-	23	9
Repairs -	-	2	1				6
Wages -	-	25	-				6
Freights -	-	6	6				
Household -	-	15	-				
Cash -	-	412	4				
		578	15			578	15
			6				6

It will thus be seen that the total of all the debit balances is equal to the total of all the credit balances, and this, the Trial balance, is the test of the arithmetical correctness of bookkeeping, whether simple or elaborate. The reason is obvious, but, like many obvious things, wants reiteration and careful consideration by the student.

The principle of posting involves the placing of every item under some account on the opposite side of the books. Each such item here as above must of necessity be considered from two points of view. If hay be sold and the cash increased by £19, the proceeds of the sale, the "crops" account, must be reduced by the same amount, and the two entries do not so much neutralise as balance one another. If a mistake should

occur in posting, this will be detected in the balances, because they will then add up to different totals and remain incorrect until the error has been discovered and put right. There, of course, still remains the risk of *posting to the wrong account*.

There are few, even among farmers, who confine their business transactions to those which are performed for cash. And in the case of a Co-operative Society, cash itself is used to a very small extent, although it is imperative that every item of stock which passes either into or out of the hands of the member should be entered in a book in terms of the cash which it represents. It is, therefore, necessary to use a book into which are regularly entered the details of transactions which cannot be put through the Cash-book, and I propose to call this a

PURCHASES AND SALES BOOK.

It will be easier for the student to follow the use of this book if he treats it just as the Cash-book is treated, but remembers that the figures he enters and posts are not really cash, as they are in the Cash-book, but goods whose value is represented by the money he enters in the columns. Suppose the farmer were to buy artificial manures to the value of £25 from Jones, cake to the value of £18 from Smith, implements to the extent of £9 9s. from Robinson; were to incur freight on the railway to the amount of £3, and had some repairs done by Brown which were found to cost him £5 9s. when the bill came in. Not having paid cash for these things he cannot now pass them direct to any of the accounts such as I have previously given—manures, repairs, and the like. His Ledger, however, must show him to whom he owes the money. Suppose, on the other hand, the same farmer sells some of his stock and crops to a buyer or buyers whom he can trust—cattle to Evans, £65; straw to Stewart, £10, and milk, &c., to Wilson, £17 5s. It is equally necessary—in fact, more so, as his creditors will look after themselves—that he should be very careful to record these transactions in his books. The items given can then be entered thus:—

Dr.				Purchases.			Sales.				Cr.		
1920.				£	s.	d.	1920.			£	s.	d.	
Jan. 7	To Jones—						Jan. 2	By Evans—					
	Manures -	1	25	-	-			Cattle -	11	65	-		
9	„ Smith—Cake -	3	18	-	-		4	„ Stewart—					
15	„ Robinson—							Straw -	13	10	-		
	Implements -	5	9	9	-		19	„ Wilson—					
16	„ L. & L. Railway	7	3	-	-			Milk, &c. -	15	17	5		
23	„ Brown—Repairs	9	5	9	-								
	Balance -		31	7	-								
			92	5	-					92	5	-	

On posting into the Ledger these accounts will appear:—

<i>Dr.</i>		<i>Jones.</i>		<i>Cr.</i>	
		£	s. d.	1920. Jan. 7	By Manures - 1 25 -
					3
<i>Dr.</i>		<i>Smith.</i>		<i>Cr.</i>	
		£	s. d.	1920. Jan. 9	By Cake - - 1 18 -
					5
<i>Dr.</i>		<i>Robinson.</i>		<i>Cr.</i>	
		£	s. d.	1920. Jan. 15	By Implements - 1 9 9 -
					7
<i>Dr.</i>		<i>L. & L. Railway.</i>		<i>Cr.</i>	
		£	s. d.	1920. Jan. 16	By Freight - - 1 3 -
<i>Dr.</i>		<i>Brown.</i>		<i>Cr.</i>	
		£	s. d.	1920. Jan. 23	By Repairs - - 1 5 9 -
					11
<i>Dr.</i>		<i>Evans.</i>		<i>Cr.</i>	
1920. Jan. 2	To Cattle - -	1 65	£ s. d.		£ s. d.
					13
<i>Dr.</i>		<i>Stewart.</i>		<i>Cr.</i>	
1920. Jan. 4	To Straw -	1 10	£ s. d.		£ s. d.
<i>Dr.</i>		<i>Wilson.</i>		<i>Cr.</i>	
1920. Jan. 19	To Milk, &c. -	1 17 5	£ s. d.		£ s. d.

As I pointed out in the case of the Cash-book, here, too, the total of the Dr. balances is equal to the total of the Cr., and any discrepancy points to some error in the postings.

It will be noted that the difference between the purchases and sales indicates the balance in favour of or against the farmer on these transactions. If carried on from month to month, it may be made to give him a very fair idea of how his business stands, but will have to be rectified by the Cash-book and the stock. I shall have to explain shortly how this book in a more complete form will be invaluable to the man who knows how to use it; but I have commenced with this very simple arrangement in view of those who can attempt nothing but the most primitive of methods. In the case of members of a Co-operative Society it covers the whole ground; because, if the member is loyal, and puts all his business

through the Society, it will simply express the details of that business, and these can be posted to their various accounts—manures, cattle, &c.—direct, the balance only being passed to the Dr. or Cr. of the Society's account as the case may be.

When all the moneys due—from Evans, Stewart, and Wilson, in the above case—are paid, and the time comes for payment of Jones, Smith, and the rest, the Cash-book will be requisitioned again, and I will give just two instances of the method to be observed:—

Dr.										Cash.										Cr.										2
1920.	Feb. 8	To Evans	-	-	11	£	65	s.	-	d.	1920.	Feb. 20	By Jones	-	-	1	£	25	s.	-	d.									

Dr.										Evans.										Cr.										11																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					
1920. Jan. 2	To Cattle	-	-	1	£	65	s.	-	d.	1920. Feb. 8	By Cash	-	-	2	£	65	s.	-	d.																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																</

Dr.					Jones.					Cr.					
1920. Feb. 20	To Cash	-	-	2	£	s.	d.	1920. Jan. 7	By Manures	-	-	1	£	s.	d.
					25	-	-						25	-	-

These accounts therefore are *ruled off* and trouble us no more.

If the student will consider this book carefully, he will see that it accurately corresponds to the Cash-book in its form. The purchases are on the Dr. side and represent so much value received in goods rather than in cash; the sales are placed on the Cr. side and represent the outgoings in goods instead of money. If the "Purchases and Sales Book" is used simply to record the transactions which occur between a farmer and his Co-operative Society it will be clear to the reader that it acts as a Ledger account of the Co-operative Society in the farmer's books. If the said farmer desires to analyse the entries, he may, as I said before, post them to the various nominal accounts concerned. For instance, the first entry, instead of "Jones, manures," will be "manures," all the goods coming from the Society and going to the Society. The posting can then be made to "manures" instead of to "Jones" account. But if the farmer is not enthusiastic or loyal enough to put everything through his Society it will be necessary, in order to attain the best results, to make the "Purchases and Sales Book" rather more elaborate, and I shall have to postpone the consideration of this to a later page. If we should be so happy as to obtain national agriculture, or county farming, we shall by that pleasing operation get perhaps the largest piece

of Co-operative bookkeeping that the world has yet seen. And by the same stroke we shall make what will be practically a nation of bookkeepers, for the system will be so simple that even Hodge will enjoy it.

The difficulty which now confronts us is to get our goods—manures, cattle, or whatever they may be—placed to the Dr. or Cr. of the persons involved—our friends Smith, Jones, Robinson, and the rest—and at the same time keep our analysis going of the goods themselves by placing the purchases or sales under their appropriate headings under the Ledger accounts which we opened for them when we were dealing with the Cash-book. We are not confined in our operations to the Co-operative Society, so that we want to know at any moment how much we owe to or are owed by certain persons, and at the same time we are also interested in how much we have spent or have received of these regularly recurring items, cattle, crops, manures, cake, and articles of such a kind which we began by arranging under definite Ledger accounts. It is upon a carefully recorded and vigorously watched series of entries of this kind that a farmer's financial success depends. This can be done in two ways if necessary, but there is only one way in my opinion in which it should be done. In the postings to "Jones" and others the money was carried to the other side in the Ledger and the "folio" entered in the column adjoining the cash column. But we might use two folio columns instead of one and post the same item a second time, placing it on this occasion *on the same side* as it appears in the Purchases and Sales Book, but under the *nominal* account—manure, crops, &c.—to which it belongs. By using this method we get the facts correctly, but it will be noticed that each item, for manures, *e.g.*, is posted separately, though we may have bought some from twenty different sellers, and though we may have sold to a hundred buyers similar goods. In order therefore to simplify the postings (and this means reducing the risk of mistakes), a perfect Purchases and Sales Book should be designed so that the various "accounts" which we decide upon may each have a separate column to itself, and the total only of each column carried to the Ledger once a month, or indeed once a year. The book itself will have to be larger to accomplish this purpose, but, as it will last for many years and enable comparisons to be made of one year with another, a slight initial expense will be well laid out. This extra size will oblige me to show the Dr. and Cr. sides of the book separately instead of facing each

other as they would be in practice. I will revert to the illustration which I previously gave:—

Dr.			Purchases.															
			Folio.	Manures.			Cakes.			Implements.			Freight.			Repairs.		
				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
1900.				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Jan. 7	To Jones - -	1	25	-	-	18	-	-										
9	" Smith - -	3																
15	" Robinson -	5							9	9	-							
16	" L. & L. R. -	7										3	-	-				
23	" Brown - -	9													5	9	-	
			Folio.	Cattle.			Sales.			Crops.			Milk, &c.					
				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
1920.				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
Jan. 2	By Evans - -	11	65	-	-	10	-	-										
4	" Stewart -	13																
19	" Wilson - -	15										17	5	-				

If there be no scarcity of columns for the purpose in view it may be wise to use one column on both sides for the whole of the transactions, repeating these items in the remaining columns as shown. By this means we arrive at a very simple method of checking the work, for the total of the first column should then be equal to the totals of all the analysis columns. There is, however, one pitfall to be avoided here. The "personal" items being separately posted, the column which contains these must be ignored in the postings, though its total is required for checking purposes.

I will now return for a moment to the Cash-book for the purpose of pointing out that a perfect Cash-book also should be designed in this way. It has transpired that we have in the Cash-book two kinds of entries, those simple receipts and payments which are not connected with any definite person, and those which are, as in our recent receipt from Evans and payment to Jones. The receipts upon a farm may be daily ones for milk, for instance, as well as isolated ones, as when a flock of sheep may be sold at a fair. On the other hand, payments must often be regular, as in the case of wages, and it is both clearer and safer to post in one total at definite times, the end of the month or the end of the year, the sum of such payments than to do so as each item is entered in the Cash-book. This need not prevent a farmer from examining his receipts and expenditure as they go on.

We have then at this point considered what is for an ordinary business a complete set of books:—a Cash-book for entering the receipts and payments of money; the Purchase and Sales book for dealing with goods; and the Ledger for setting out the analysis of the operations. These books are looked upon by many as in reality one book in three volumes, and this book is called by one party the Ledger and by another

the Journal. I am content as long as we all say the same thing, but I do submit that, as the Cash and Goods books are books of origin, there is a distinction between them and the Ledger. Neither could the various columns which are so valuable a feature in these books of origin be conveniently incorporated in a Ledger, or assimilated in style to it.

In these two books for original entries, then, the Cash-book and the Goods-book, we have pages that may be divided into columns on both sides.

I want to interest the student in these two flanks of the central ledger. The prime use of the first column is to enter those transactions which deal with *persons* which from the nature of the case cannot be added up in columns and posted as a total. Mr. Brown might welcome a system which bulked his small payment on account with Smith's large cheque in settlement, but it would not do. The analysis here is to watch how much Mr. Brown has paid off his debt, not to learn how much postage or twine has been required to run the business. But once we have made quite sure of these personal accounts, it is interesting to observe which features in the account should be kept in separate columns and which may be thrown together. There is one column on each side of the Cash-book, however, to which I must now turn.

THE BANK

In these days banks are so widely diffused, and, what is even more important, are so willing to place their services at the disposal of even the smallest customer, that no one who has to deal with money at all should be without the assistance that a bank can give. It used to be the regular cry of the old-fashioned merchant, at one time supported by the banker himself, that small sums should not be paid into or drawn out of a bank, it gave so much trouble, and so on. The text-books as well as the managers, however, now say boldly, on the other hand, "pay everything in and cheque everything out without scruple." I shall, therefore, be content with urging upon my readers this course and shall not attempt to discuss alternative methods beyond those already noted. It follows that the farmer or business man who follows my advice has no need of a separate book or account for the bank; the Cash-book itself will be identical with the Pass-book.

This Pass-book, therefore, performs the part of auditor to some extent, and becomes an invaluable means of checking the Cash-book entries. For supposing a farmer should receive a cheque for his month's milk and pay it into the bank,

although he forgot to enter it into his Cash-book; the Bank-book shows him his mistake and enables him to rectify it at once. The Paying-in book also, if carefully used, is itself a record from which his Cash-book may at any time be entered up.

On the other side the payments need give him no trouble to remember. The Cheque-book counterfoil preserves the record at home; the Bank Pass-book may be regularly compared with the Cash-book from time to time. There may be some, "penny wise, pound foolish," who are tempted to be deterred by the small charges which the banks make for these services rendered. But, independently of the fact that these services are much more valuable than the cost involved, it should be remembered that a bank account, carefully managed, takes the place of clerical work, which is not too often available on a farm or indeed anywhere else of this quality; that it does away with the trouble and serious risk of keeping cash in the house; and that, looked at as a whole, it saves an enormous loss in interest throughout the country; for cash which is in the pocket or in the drawer is earning nothing, whereas a cheque is only debited to A when it is credited to B.

There are one or two points which I ought to mention lest they cause a difficulty to those who are not conversant with them. I am urging that the Bank-book and the Cash-book should be identical and some reader might object that trifling sums for petty expenses cannot be treated in this way, that some money must remain in the drawer or be carried in the pocket for the ordinary and small needs of life. This is true, and a Petty-cash book should be used to deal with such matters. But it does not prevent a cheque being drawn for petty cash and given to the person who keeps this account. The details of such petty cash need not then be brought into the statement of the annual working—the total of petty cash, or an analysed list of expenditure under that head, is all that is required. A simple petty cash system called "imprest" from the use of that word for an "advance on loan," is to begin by a cheque for a round sum, say, £5, and subsequently to pay a cheque equal to the amount expended in the week or month, thus bringing back the cash in hand to the original sum.

The farmer, however, will, if he be wise, make some general rule as to the items which shall be dealt with under petty cash. Wages, for instance, should never be included. A separate cheque should be drawn for that item, if the farmer should cash his own cheque with money he has in hand, and pay the said cheque into the bank in place of the cash used.

Of course, cheques are not wise tender at such places as fairs, and, until those picturesque anomalies have ceased to exist, cash must be paid for stock bought and cash only must be taken for stock sold at them. But if the fair should lie in an adjoining or in the home district, the local branch will cash the farmer's cheque, and thus take away the need for carrying coin about; and if it be at some distant place the bank in that place will do what is needful if the home bank has been asked to send on the necessary instructions. All banks are brothers: all that is needed is to stand in good credit with one.

The bookkeeping side of a banking account, therefore, should consist chiefly in the use of a coloured pencil to mark off the items in the Cash-book and the Pass-book as they are agreed. When all the Cash-book entries have appeared in the Pass-book also, the balances in the two books should be the same, and the bookkeeper may take it without misgiving that his figures are correct.

Banking is the sequel to the use of money, which is itself a mere improvement upon the act of barter. And, at the time of writing, money has been pushed to such extremes by precedent and prejudice, as well as by pure self-interest, that men have been talking of reverting to the semi-primitive barter in defending themselves from the fantastic in exchange. In these dreadful times, the various nations have to ask themselves what they have which is essentially their own that they can exchange for the commodities they need. And the sad fact becomes apparent that craft and skill without raw material to work upon are obliged to starve just the same as idleness and depravity.

So it has come to this: The nations that have a surplus, whether of minerals, crops, manufactures or transport facilities, have made an indecent claim for profit on those which lack them. But worse almost than this is the fact that the individuals in the nations that have a surplus have made these claims, not for their people as a whole, but for themselves in particular. The instrument they use for this flagrant indecency is banking itself, and chiefly through gold and the exchange. If Labour were listened to for a moment it would say this: In these great areas of the war, we have millions of fellow men and women who could grow wheat for us and a multitude of foods; who could grow vegetable fibres and rear or hunt animals that would clothe the races; who could manufacture a thousand articles instead of starving for want of work. But the machine which is needed to start all the

multifarious activities which are required to bring about an average state of well-being is stopped by a few individuals who demand to be paid *in gold*. Now gold has been found to be a useful commodity in the past for regulating exchange between nations, though at the best of times there has always been a certain class ready to exploit it. Banking has been made its tool. Gold is a convenient commodity within limits, but as bad as any commodity known when we get down to food. The early use of cattle as the medium of exchange was far better when the race was hungry. With a cow or a sheep you can bargain upon somewhat equal terms when you want wheat or apples. Now, when these commodities are scarce, it is a wild proposal, suggested by those who know how to use gold, to make everyone pay in that metal. The thing that we need to look into, therefore, in respect of banking is this: Is banking a means of producing gold, or do the gold merchants, so to speak, employ gold and its statutory establishment as the medium of currency to get trade and its profits into their own hands? It cannot be that gold is produced by banking, for it is very difficult to keep it in the banks at all. For years they have been working without it. And if all the capital of the banks were gold, it would only be 3 per cent. of the "money" in their hands.

I am saying all this because it bears upon bookkeeping. The banks represent practically all the wealth of the country which is in liquid form. They represent all the money that is passing, whether in food, clothing, rent; whether in needs or luxuries. The expression "pounds, shillings and pence," therefore, is an expression merely. If we all paid our debts off in one day there would be a very small fraction which could be paid in what is called cash. And that cash is made up almost entirely of promissory notes, if we put the truth fairly. It does not need much imagination, therefore, to see that those who direct this affair of exchange may, by pure inability, ignorance, and greed, become the agents of a gigantic operation of cruelty and fraud. By means of gold—the word, mind, not the thing—they can exact cruel, bloodthirsty terms from those in distress. And the State which saved them from disaster when the war came is now asked to allow them to pursue the old course, a course founded not on the realities, but upon the conventions of those interested in it.

Suppose that here in England we were cut off absolutely from the obtaining of gold. Would the Englishman sit down and wring his hands, "throw up the sponge," as it is called,

while he had his good soil, his iron and coal, his power of manufacture, and his ships? The fact is that gold has to some extent injured the Englishman's own character and outlook. He might make so many more things at home if he had not made a fetish of buying them from abroad. Now, if banking were made almost universal, we should have bookkeeping to correspond, and our losses upon agriculture *as a people* would speedily come to light. The landowners' own admissions prove that, except in wartime, the land does not return as much as 3 per cent. Good bookkeeping would soon show us that the financier, the person who desires to juggle with gold, is the person whose existence is imperilling the self-supporting possibilities of this good land in which we dwell. It is the same with the vast unused potentialities of coal. He will not allow this banking machine, which is merely good bookkeeping, to be applied to all the activities of the State. The heresy is this: The financier states—and all his energies are directed to make his thesis good—that bookkeeping is applicable only to cash—gold, silver, copper—and that a Cash-book only is required in addition to the Ledger. Humanity claims, on the other hand, that coins do not matter, except as a convenience in the pocket, but that goods matter very much, and in the end are the only things that do matter, because we cannot eat or drink, clothe or house ourselves with even the largest fortune in cash. Of more importance than the Cash-book are the Purchase and Sales books, the Account of Manufacture, the Stock-book and the Herd-book, and the statement of Yield per acre in crops. The figures in these are, indeed, written in pounds, shillings and pence, but they should rather be read as comfort and happiness, well-being and a mind open to learn all things.

Balancing is never, even in banking, a thing of coins, but of social success; and social success does not arrive while there are slums left to write off.

But, technically, banking is one large Cash-book and Ledger. There is in it a central thing known as the clearing-house, but it is as a whole one vast clearing-house of the country's business. I have shown elsewhere that, if it came to payment in gold, the whole vast machine would be wrecked every time we went to war, and that, therefore, while we are at peace the machine should be made into a national one. At the best of times the financier merely bets upon having gold: he juggles with the theory of probabilities. The beneficent uses of banking could be multiplied if the State and its component parts became the owners of it, and the

workers-out of its details. This thing called exchange is essentially one of national concern.

At present the machine works like this: A number of financiers come together and open a bank with a certain amount of published capital, the greater portion of which is promised rather than paid. And I may just say here that in general *unpaid*, as well as the *paid-up* capital, earns the current rate of interest.

The business of the country is worked somewhat as follows: Except in retail shops, most of the transactions of the present day are paid for by cheques, or their equivalent promissory notes and acceptances. I ought perhaps, to explain here that a promissory note, which is merely a definite promise to pay "on demand" or on a certain date, is not a usual commercial method of settling accounts like a cheque or acceptance. It generally smells of difficulty and of the lawyer. But an acceptance is an ordinary, commonplace method of carrying out payments in the way agreed upon in two, or three months, as the case may be. It is useful as giving the acceptor time to get his purchases carried in a ship, or manufactured, or distributed. And it is useful to the drawer, because he can take it to a bank and get it discounted—*i.e.*, cashed less a small discount—as soon as he has parted with his goods.

A firm receives a pile of cheques from its customers, pays these into a bank, and draws cheques upon the same bank for goods bought, the expenses incurred and the profits made. It cannot be too often, therefore, impressed upon the citizen that banking in the first place is a national convenience analogous to the Post Office and should be placed upon that footing at once. In its primary uses competition has no place, and, if it had, there is now no competition left. The greater portion of the business which passes has no concern with borrowing or lending: it is purely a method of settling accounts between persons in the neatest, cheapest and safest way. But borrowing and lending do come in and bring with them the overwhelming need for state ownership from the point of view of safety: for the banks lend other people's money rather than their own. To some extent this is done with the cognizance of these "other people," for the arrangement of "deposits" for stated minimum periods is made because the depositor knows that his money will be lent. The only entity which can carry through a policy of this kind with reasonable security in these times of wars is the State itself. And I claim that it is unjust to the ordinary citizen to give the State's

security to private ventures at a very serious loss and expense to the country as a whole. The banks perform their voluntary and well-paid functions admirably, but they can neither provide equal facilities, nor at so low a cost, as the State itself could furnish them. Adequate national banking should carry good bookkeeping into realms of chaotic finance if it were handled well; and the State need not earn four or five times a received rate of dividend on the capital as our banks do now.

The bankers have discovered a new word, of which they seem to be proud—the word “resources.” I admit at once that it is a very cleverly selected word to go to the public with; but what, in bookkeeping language or in plain English, does it mean? Let me take any balance sheet of any bank and try to answer the question. From the appearance and sound of the word one might take it that “Resources” was another name for “Assets.” But, surely, the actual share capital of the bank is the first of these resources to use when one goes to it for a loan, and yet this share capital is described in the balance sheet as a liability, because, of course, the balance sheet owes the money to the subscribers. But it would never do to say that our new word “resources” is only another form of the old expression “liabilities.” And yet it almost seems to come to that—for, if the share capital is resources, the “current, deposit, and other accounts” must be resources too, because the word is used concerning *the total of the balance sheet* on one side or the other. The Assets are practically coin, investments, and money lent; but, indeed, resources is a poor word to use for “advances” and “bills discounted,” which have themselves been obtained by the borrower out of the bank’s “resources.” If a customer wants more money, you really cannot tell him to take it out of what you have already lent him! So I come back, am driven back, to the conclusion that “resources” means “liabilities,” or, perhaps, in the common phrase, “the money you can lay your hands on.” I do not think the word “very commendable,” but I should like to hear Bardolph and Shallow on it, as we heard them on that other great banking word “accommodated.” If only Shakespeare were here!

I have stated the desire and the object I had in venturing on this book, but these were not the cause, the *causa irritans*, of my doing so. This final incentive was the fact that in some text-books, and even in examination papers, the Journal is taken to be the basis of all good bookkeeping. The thing is so astonishing, almost unbelievable, that I will give an

illustration of how the matter is first presented to the student. These facts are recorded for the student to work upon :—

A.B. commences business with capital £625 and pays into the bank £600 of it. He then buys goods for which he gives a cheque of £91 5s. and sells out of them to C.D. £33 17s. 6d. He then buys from E.F. further goods £212 10s. and sells to G.H. £39 12s. 6d. He pays E.F. £142 10s. and is allowed £7 10s. discount. He next sells to J.K. £45 16s. and G.H. pays him £28. He then sells to L.M. £54 5s. and next day he sells to C.D. further goods £42 18s., who pays him £52 10s. £87 10s. is paid into the bank. J.K. receives a further consignment of £56 7s. 6d. and further purchases are made from E.F. £120. J.K. pays in £72 10s. and L.M. pays to A.B.'s bank account £37 10s. E.F. is then paid cash £62 10s. and a cheque for £50. Cash sales are made which total £63 17s. 6d. and further payment is made into the bank of £65.

The expenses of the month were £18 5s. and the stock was taken at £125.

These facts are set out by the teacher in the Journal thus :—

1920.				£	s.	d.	£	s.	d.
Jan. 1	Cash	Dr.	-	625	-	-	625	-	-
		To Capital	-						
2	Bank	Dr.	-	600	-	-			
		To Cash	-				600	-	-
4	Goods	Dr.	-	91	5	-			
		To Bank	-				91	5	-
6	C. D.	Dr.	-	33	17	6			
		To Goods	-				33	17	6
	Goods	Dr.	-	212	10	-			
		To E.F.	-				212	10	-
10	C. H.	Dr.	-	39	12	6			
		To Goods	-				39	12	6
15	E. F.	Dr.	-	150	-	-			
		To Bank	-				142	10	-
		„ Discount	-				7	10	-
	J. K.	Dr.	-	45	16	-			
		To Goods	-				45	16	-
18	Cash	Dr.	-	28	-	-			
		To G.H.	-				28	-	-
	L. M.	Dr.	-	54	5	-			
		To Goods	-				54	5	-
20	C. D.	Dr.	-	42	18	-			
		To Goods	-				42	18	-
	Cash	Dr.	-	52	10	-			
		To C.D.	-				52	10	-
	Bank	Dr.	-	87	10	-			
		To Cash	-				87	10	-
24	J. K.	Dr.	-	56	7	6			
		To Goods	-				56	7	6
	Goods	Dr.	-	120	-	-			
		To E.F.	-				120	-	-
	Cash	Dr.	-	72	10	-			
		To J.K.	-				72	10	-
27	Bank	Dr.	-	37	10	-			
		To L.M.	-				37	10	-
	E. F.	Dr.	-	112	10	-			
		To Cash	-				62	10	-
		„ Bank	-				50	-	-
30	Cash	Dr.	-	63	17	6			
		To Goods	-				63	17	6
	Bank	Dr.	-	65	-	-			
		To Cash	-				65	-	-
	Trade Expenses	Dr.	-	18	5	-			
		To Cash	-				18	5	-

The items are then posted into the Ledger as follows:—

<i>Dr.</i>				<i>Capital.</i>				<i>Cr.</i>			
	£	s.	d.						£	s.	d.
					By Cash -	-	-	-	£ 625	-	-
<i>Dr.</i>	<i>C.D.</i>				<i>Cr.</i>						
To Goods	£ 33	s. 17	d. 6		By Cash	-	-	-	£ 52	s. 10	d. -
" do.	42	18	-								
<i>Dr.</i>	<i>E.F.</i>				<i>Cr.</i>						
To Bank	£ 142	s. 10	d. -		By Goods	-	-	-	£ 212	s. 10	d. -
" Discount	7	10	-		" do.	-	-	-	120	-	-
" Cash	62	10	-								
" Bank	50	-	-								
<i>Dr.</i>	<i>G.H.</i>				<i>Cr.</i>						
To Goods	£ 39	s. 12	d. 6		By Cash	-	-	-	£ 28	s. -	d. -
<i>Dr.</i>	<i>J.K.</i>				<i>Cr.</i>						
To Goods	£ 45	s. 16	d. 6		By Cash	-	-	-	£ 72	s. 10	d. -
" do.	56	7	-								
<i>Dr.</i>	<i>L.M.</i>				<i>Cr.</i>						
To Goods	£ 54	s. 5	d. -		By Bank	-	-	-	£ 37	s. 10	d. -
<i>Dr.</i>	<i>Cash.</i>				<i>Cr.</i>						
To Capital	£ 625	s. -	d. -		By Bank	-	-	-	£ 600	s. -	d. -
" G.H.	-	-	-		" do.	-	-	-	87	10	-
" C.D.	52	10	-		" E.F.	-	-	-	62	10	-
" J.K.	72	10	-		" Bank	-	-	-	65	-	-
" Goods	63	17	6		" Expenses	-	-	-	18	5	-
<i>Dr.</i>	<i>Bank.</i>				<i>Cr.</i>						
To Cash	£ 600	s. -	d. -		By Goods	-	-	-	£ 91	s. 5	d. -
" do.	87	10	-		" E.F.	-	-	-	142	10	-
" L.M.	37	10	-		" do.	-	-	-	50	-	-
" Cash	65	-	-								
<i>Dr.</i>	<i>Goods.</i>				<i>Cr.</i>						
To Bank	£ 91	s. 5	d. -		By C.D.	-	-	-	£ 33	s. 17	d. 6
" E.F.	212	10	-		" G.H.	-	-	-	39	12	6
" do.	120	-	-		" J.K.	-	-	-	45	16	-
					" L.M.	-	-	-	54	5	-
					" C.D.	-	-	-	42	18	-
					" J.K.	-	-	-	56	7	6
					" Cash sales	-	-	-	63	17	6
<i>Dr.</i>	<i>Expenses.</i>				<i>Cr.</i>						
To Cash	£ 18	s. 5	d. -						£	s.	d.
<i>Dr.</i>	<i>Discounts.</i>				<i>Cr.</i>						
	£	s.	d.		By E.F.	-	-	-	£ 7	s. 10	d. -

The trial balance is then given thus:—

Dr.				Cr.			
	£	s.	d.		£	s.	d.
Capital	-	-	-		625	-	-
C.D.	-	-	-		52	10	-
E.F.	-	-	-		332	10	-
G.H.	-	-	-		28	-	-
J.K.	-	-	-		72	10	-
L.M.	-	-	-		37	10	-
Cash	-	-	-		833	5	-
Bank	-	-	-		283	15	-
Goods	-	-	-		336	14	-
Discount	-	-	-		7	10	-
Expenses	-	-	-				
	2,609	4	-		2,609	4	-

Upon the same facts I submit that the books ought to be kept in the way now to be shown, *ignoring the Journal altogether*, the postings of course being the same where needed:—

Dr.				Cash Book.				Cr.			
	£	s.	d.		£	s.	d.		£	s.	d.
To Self								By Goods	7	10	-
" G.H.								" E.F.			
" G.D.								" Bank	87	10	-
" Cash								" E.F.	62	10	-
" J.K.								" Bank	65	-	-
" L.M.								" Ex-			
" Goods								penses	18	5	-
" Cash											
" Balance								Balance	8	12	6
	7	10	-						506	5	-
	7	10	-						790	-	-

Dr.				Goods.				Cr.			
	£	s.	d.		£	s.	d.		£	s.	d.
To Bank								By C.D.	33	17	6
" E.F.								" G.H.	39	12	6
" do.								" J.K.	45	16	-
								" L.M.	54	5	-
								" C.D.	42	18	-
								" J.K.	56	7	6
								" Cash Sales	63	17	6
								" Balance	87	1	-
	423	15	-						423	15	-

The trial balance should read thus:—

Dr.				Cr.			
	£	s.	d.		£	s.	d.
Capital	-	-	-		625	-	-
C.D.	-	-	-				
E.F.	-	-	-		70	-	-
G.H.	-	-	-				
J.K.	-	-	-				
L.M.	-	-	-				
Discount	-	-	-		7	10	-
Cash	-	-	-				
Bank	-	-	-				
Goods	-	-	-				
Expenses	-	-	-				
	702	10	-		702	10	-

Before going further with this little account, I must point out that the fundamental objection to the use of this journalising system is that it mixes up the two separate business facts of cash and goods and adds unnecessary confusion to the student's task. I object, in the name of Education, to a manner of teaching which, instead of removing difficulty from the path of the learner, adds new and totally unnecessary stumbling-blocks to it. I contend that the whole of the 44 entries in the Journal are unneeded, and that the entries direct into the Cash and Goods books (which are less than 20) are all that are required, being much simpler also for the student to understand. To enter into both Cash and Goods books the receipts on the left and the outgoings on the right is as clear, as luminous, a statement as can be made to learners. And when accomplished the work is complete.

When we come to the items posted from these books into the Ledger, there is another point to be deprecated. If the account E.F. be examined, it will be noted that the three items to the Dr. and the first item to the Cr. (£212 10s.) balance each other. They should, therefore, have been *ruled off* and not brought into the Trial Balance at all. And looking at the latter further, it will be seen that the total under the Journal system reaches the sum of £2,609 4s., instead of £702 10s. This is due to the fact that the two sides of the Ledger are taken to the Trial Balance, instead of the balances themselves. As one use of the Trial Balance is to enable us to examine the separate balances, it is to be deplored that such an imperfect method should be taught. We want to know the net balance we owe to E.F. and the net balances that C.D. and the rest owe to us so that we may pay E.F. at the proper time. And if we never rule anything off, and never take out the balances, we are losing half the value of our bookkeeping.

The stock was taken at £125 and goes to the Cr. of the Goods Account, which will then become £37 19s. to the Cr., instead of £87 1s. to the Dr. The Profit and Loss Account, therefore, will read thus :—

	£	s.	d.		£	s.	d.
Expenses - - - -	18	5	-	Goods - - - -	37	19	-
Profit - - - -	27	4	-	Discount - - - -	7	10	-
	£45	9	-		£45	9	-

and the Balance Sheet :—

	£	s.	d.		£	s.	d.
Stock - - - -	125	-	-	Capital - - - -	625	-	-
Bank - - - -	506	5	-	E.F. - - - -	70	-	-
Cash - - - -	8	12	6	Profit - - - -	27	4	-
Debtors - - - -	82	6	6				
	£722	4	-		£722	4	-

The method just given has always seemed to me so simple and so accurate, as well as what I have called luminous, that it struck me as strange, and I believe will strike some of my readers as strange, that any other method of using account books should have been suggested. But through some notion concerning the single and double entry antithesis, the absurd method, if I may use an expression in the Euclidean sense without meaning to be discourteous, of journalising all entries has become the *sine qua non* of a certain school. And education under this school, which is meant to be an introduction to Commercial life, becomes a *very serious obstacle to it*.

I submit that this system of journalising is opposed to the philosophies of both bookkeeping and pædagogy itself. A child goes to a dame's school—there are none now except in the sense that all our primary schools are dames' schools—with two facts in his mind which he has already experienced. These are, first, that he cannot buy a stick of chocolate without his penny in hand; and, second, that if he reads his book—I am speaking of England—he must read the page on the left before that on the right. His course at school does nothing to contradict or efface these two facts, and he emerges with some knowledge of figures and their manipulation. On entering the bookkeeping classes he is quite prepared, therefore, for the Cash and Goods books as the foundation of his work.

I do not wish him to begin trading at school like Ralph Nickleby, but if he can buy seven sticks for sixpence it dawns on some minds quite early that he can get his sixpence back and have a stick over for himself, if he sells one to each of six friends at a penny. Or he might soon learn the better way of co-operation, pool his own penny with those of five friends, and have an extra stick to divide among the group.

A child, I say, can understand bookkeeping quite early if he is referred to simple facts such as these; but a course which begins by journalising in the way I have illustrated begins and ends in fog. I should urge even the most advanced student to stick resolutely to simple luminous methods, and begin with the Cash-book first, the Cash-book and Ledger next, and then the Purchases and Sales books of the Cash-book type.

As we proceed, we shall find the word Journal a useful name for many types of business books of origin. There are many volumes which might be called Journals—such as the Milk and Wages Books—because they carry out the same principle, the passing of certain transactions to the suitable accounts on the respective sides of the Ledger. But these are better when designed definitely for the work required of them than when mingled indiscriminately in one book called the Journal. As an instance of what use may be made of this book I may take the writing off of Depreciations from the various capital accounts. These should be written off once a year only and cannot conveniently be placed in any of the books which we have been considering before reaching their places in the Ledger itself. Of course, it is quite possible to transfer from each capital account to the debit of Profit and Loss such percentages as may be considered necessary without the introduction of any book at all. But it is always more satisfactory to make the whole up in one account in the Journal and place the total to the debit of Profit and Loss and the separate details to their respective accounts thus:—

1920.		£	s.	d.	1920.		£	s.	d.
Dec.31	To Buildings -	410	50	-	Dec. 31	By P. & L.	400	140	-
	„ Machinery -	420	30	-					
	„ Implements -	430	25	-					
	„ Stock -	300	35	-					

The Journal may thus be used annually or at necessary times to correct or adjust figures which cannot be kept absolutely true from day to day. It may be conveniently used also at stock-taking in the same manner.

At this point, it is perhaps desirable to indicate to the student how to proceed in making up his accounts at the close of any year. I will presume that the Depreciation has been deducted as above, and that stock has been taken, say, £200 in Hay and Crops, and £300 in Cattle. If the balances are taken out of the books, we will imagine that the Trial Balance stands as below, but it must be understood that I have made no attempt to work out a typical case:—

Dr.				Cr.			
	£	s.	d.		£	s.	d.
Buildings -	2,500	-	-	Capital -	3,000	-	-
Machinery -	200	-	-	Creditors -	600	-	-
Implements -	100	-	-	Crops -	234	-	-
Debtors -	700	-	-	Milk -	200	-	-
Depreciation -	140	-	-	Cattle -	323	-	-
Repairs -	25	-	-				
Wages -	260	-	-				
Freights -	36	-	-				
Household -	180	-	-				
Manures, Cakes -	216	-	-				
	4,357	-	-		4,357	-	-

We now remove from this list of balances those items which bear upon the Profit and Loss Account, and see how they stand towards each other. On the Debit side we must take that expenditure, such as wages, which is gone with the year that is ended, leaving no asset behind, and on the Credit side we must add the values of the two kinds of stock :—

Dr.				P. & L. Account.				Cr.			
1920. Dec.	To Cakes and Manures -	£ 216	s. -	d. -	1920. Dec.	By Crops -	£ 234	s. -	d. -		
	" Wages -	260	-	-		" Do. Stock	200	-	-		
	" Repairs -	25	-	-		" Milk, &c. -	200	-	-		
	" Freights -	36	-	-		" Cattle	323	-	-		
	" Household -	180	-	-		" Do. Stock	300	-	-		
	" Depreciation	140	-	-							
	" Profit -	400	-	-							
		1,257					1,257	-	-		

The remaining items must now form the Balance Sheet, for there is no other place for them to go to. All the Balances carried to the P. and L. Account have resulted in one balance, which must appear as an addition to the Capital, and the Stock, having been taken and placed to the credit of Revenue, must be brought into the books as the working material with which to begin another year.

The Balance Sheet, therefore, will appear thus :—

Dr.				Balance Sheet.				Cr.					
1920. Dec.	Buildings -	-	-	£	s.	d.	1920 Dec.	Capital -	-	-	£	s.	d.
	Machinery -	-	-	2,500	-	-		Profit -	-	-	3,000	-	-
	Implements -	-	-	200	-	-		Creditors -	-	-	400	-	-
	Debtors -	-	-	100	-	-					600	-	-
	Stock -	-	-	700	-	-							
				500	-	-							
				4,000	-	-					4,000	-	-

The items in the Balance Sheet invariably stand in the books of any and every public and private concern as we have shown them here, but the student will notice with surprise that Accounts such as those of Public Companies which are published annually place Property, Assets and Capital Liabilities on the sides of the statement which are the reverse of those which are used in the books of the Companies themselves. There is no good reason for this and the system should be altered.

Take the annual statement of a bank, for instance. I have never found anyone who could tell me why the proper sides are reversed, nor anyone to assert that the present system is right. I am convinced that the error has grown out of some ancient and correct system, and it might be interesting to some research student to explore the history of these early statements and balance sheets and tell us something about them.

Personally, I have a theory that our present system is a relic of an earlier one when the Cash-book reigned supreme. The balance sheet of a bank, as at present given to us, does really look like a glorified Cash-book from some points of view. We get our paid-up capital to start business with—the reserve is a later addition—the current deposit and other accounts come flowing in till we scarcely know what to do with them. Those little liabilities for acceptances, endorsements and the like are also a later addition and a detail. So we sort out the coins, especially gold, and send off much of such useless rubbish to the Bank of England, discount as many bills as we can, buy a solid block of securities, and lend, upon good substantial pledges of course, and at stiff interest, as much as people will take.

It would be quite easy to draw up a Cash-book, with columns such as I have discussed, to register all these doings, but it might lead to a serious crash if we were content with this. For, if we lend half the deposits at random, without watching every cheque and its signature, we might incur some very heavy bad debts. And a serious objection to the Cash-book theory lies in the Profit and Loss Account. In order to make our Cash-book balance, we have to show that we have a substantial sum, cash in hand, called profit. This can only have been obtained by means of some charges which are hidden under these headings of bills and advances where the balances include certain charges equal to the balance shown. But, of course, in a complete Cash-book, not only the charges to make the profit, but those which have been used to meet the expenses of the bank, would have to be shown too.

So, as a matter of fact, though the statement might conceivably be twisted into a Cash Account, it is not one, but an ordinary series of Ledger accounts set out for some unaccountable reason on the wrong sides.

I, therefore, protest against the continuance of a system which misleads everyone, however hoary its ancestry may be. And I appeal to the great institute of accountants and auditors to make the change. It is a small matter compared with the vast volume of business which is done on the right lines, but it is a blot upon it. And what is the poor student to do?

Well! the last thing which he must do is to imagine that he is at the end of all his difficulties with bookkeeping when he can balance a set of books, such as I have sketched, in the simplest and readiest manner. If I may put it crudely, the

most perfect set of books may hide very great losses rather than discover them if we are content with cash, and overlook those more important matters which we try to get into terms of cash.

We may, for instance, record in our books the money we have paid for the cargo of a stately ship, and the freight and charges on that cargo on one side; we may send out a series of invoices for the detailed deliveries of this cargo to customers; and we may even note with pleasure a certain profit when the matter seems to be closed. But, unless we have made a practice of taking as much care with weights or volumes of the cargo as we have done with the money values, we may be ruined at any time. Stock must be balanced even more carefully than cash.

And it is not stock only that must be watched in commercial ventures: there are a thousand danger points in a thousand businesses which require guarding against by vigilant care and bookkeeping. If I could select a dozen typical businesses, manufactures or trades, and indicate to the student the kind of risk that has to be avoided in them by careful bookkeeping, I think I should have done more for him than I could do in cash bookkeeping itself.

Take a cargo of wheat. It may come from a large number of places scattered over the surface of the globe, and each type of wheat has its different value. The cost will vary with each, and the importer has only one consideration finally to guide him in his purchases, namely, the price which he can obtain for such purchases when they reach him and are ready to be delivered into a mill. There are, of course, other businesses which consist of retailing this wheat—and innumerable other parcels of imaginary grain—in an endless number of positions and on any day that may dawn. But with the speculator I have nothing to do except to anathematise him here as always. The perfect system of trade which we may one day reach would be to allot to each genuine worker in turn his appropriate payment for labour on the farm, on the rail, ship and quays, and in office and mart. The ordinary risks, including the doubt as to the original value itself, which cannot with certainty be known until the miller has made his final pronouncement—ought to be covered by not merely the commonplace insurance of the present day against the sea, fire, and the like, but by an organised effort of the trade to secure for the trader the quality he buys. In trade as at present conducted, the thing called loss can scarcely be avoided,

and he makes money who merely guesses best at the course of prices as you would upon the speed of a horse.

The system is absurd; but it will require a long spell of organised bookkeeping to prepare the way for a better one. If we look at the problem in its larger aspect, we must admit that the only safe way for an Englishman to import wheat is to act as honest broker on a definite commission, and report to his principals the prices obtained, the charges, loss in transport and the rest. But that probably would not suit either the grower or the dealer who passes the produce on.

Everyone wants to know, before parting with his goods, the exact price he will obtain either in cash down or within a stated period. Free Trade is supposed to carry out all these operations of import or export in the general interest. But Free Trade often involves very serious losses, unfortunately, to those who are honestly carrying it out. And I submit that better national bookkeeping might do something to help.

I will suppose that the student—and I use this word to denote all those who never wish to give up learning, however old they may be—has obtained a considerable amount of knowledge and experience in one or more businesses, and an opportunity comes to him for obtaining a more responsible post. It is important that he should be prepared with more than mere knowledge and experience if he is to undertake new labours and responsibilities. It is, therefore, of the utmost consequence that he should have prepared himself for future work by feeling his responsibility in all his labours as a mere junior in the office. There is scarcely any position of what I may call drudgery which cannot be lightened by the application of thought and ingenuity to the drudgery itself. I have pointed out how book-keeping calls for all sorts of labour-saving and error-avoiding methods, and these are so numerous that general principles have to be applied with care and skill in each separate case. But when a few simple principles are thoroughly mastered, the student can generally bring a large amount of useful influence to bear on any business into which he may be taken.

It would be wise for the student to form the habit early of looking at each business with which he may be brought into contact in the way that Parliament looks at the finances of the country in its annual budget. It will be noticed that, in that case, the framers of the budget examine the figures of the preceding year, which is never quite completed when the first draft appears, and make a guess at the corresponding ones which are likely to apply to the year they are considering. They

estimate in the first instance what the country will have to spend on the Army, Navy, Education, Pensions, the Post Office, and the like, as well as on the interest on the National Debt. They then calculate what is likely to come in, on the basis of existing taxation, from Customs and Excise, the Income Tax, Post Office, and the rest. If Revenue seems likely to improve and Expenditure to decline, the Chancellor perhaps suggests the lightening of some impost, something which the public has been grumbling about most. Now, in this account, the State is like any of us in one respect: it must meet its obligations, it must pay the interest it has promised on its loans. And outside these it is free to cut down expenditure, if it can, or to increase it, which is easy; and Parliament becomes the arena for conflicting policies towards spending. Sometimes the consequent policy towards taxing involved is overlooked at the time. Some would keep up an expensive Army and Navy and reduce Education: some would reverse this.

But in the present rather chaotic state of national finance, we might, perhaps, organise the subject a little better from the point of view of public information. Our total indebtedness is so huge that I firmly believe that the people would welcome some immediate scheme for dealing with it. Suppose that, for my purpose of emphasising this point of estimating, I show the items of the Budget (1921-22) in a form slightly different from that which is usually presented to us. I take the expenditure from the figures shown on our Income Tax and House Duty notices, so that all may have them at hand to check. I remove from the Consolidated Fund Services the Road Fund, and put into them Old Age Pensions, which should be a first charge as certainly as the National Debt itself. To meet this first charge I take the whole of the Income Tax, and find that I have a surplus or Sinking Fund, thus :—

<i>Dr.</i>		<i>Cr.</i>	
Income Tax	- - - £410,500,000	Interest	- - - £362,872,000
		Old Age Pensions	- - - 26,092,000
		Surplus	- - - 21,536,000

I then take two items which should be studied as separate undertakings :—

<i>Dr.</i>		<i>Cr.</i>	
Motor Tax	- - - £9,000,000	Road Tax	- - - £8,400,000
		Surplus	- - - 600,000

Dr.		Cr.
Post Office:		
Receipts - - -	£60,000,000	
Loss - - -	7,165,000	
	<u>7,165,000</u>	
		Expenditure - - - £67,165,000

Customs and Excise, less the expenditure on those and Inland Revenue Departments, are—

Dr.		Cr.
Receipts - - -	£323,000,000	
	<u>£323,000,000</u>	
		Expenditure - - - £14,701,000
		Balance - - - 308,299,000

The whole account will then look like this :—

Customs, &c. - - -	£308,299,000	Pensions - - -	£121,738,000
Estate Duties - - -	71,500,000	War - - -	193,382,000
Excess and Corporation Profits	150,000,000	Civil Services - - -	118,172,000
Miscellaneous - - -	34,150,000	Education - - -	61,501,000
Motor Tax Surplus - - -	600,000	Post Office loss	7,165,000
		Surplus - - -	62,591,000
	<u>£564,549,000</u>		<u>£564,549,000</u>

The special Receipts and Expenditure are not brought into this account.

It will be noted that the sinking fund of £21,536,000 reduces the Budget surplus of £84,127,000 to £62,591,000. The year 1921-22 has shown us the uncertainty of the best Estimates when vital differences appear within the body politic.

Now, if John Bull is to watch his bookkeeping department with real intelligence, I suggest that he should have a few alterations made in the form of his published balance sheet. The item "Civil Services" contains such a curious admixture of things as Education, Pensions, and various Ministries which might surely be set out so as to give the citizen more information. The balance sheet is, perhaps, getting a little more luminous, but this item, "Civil Services," covers far too many things, and hides much that the taxpayer ought to, even if he does not want to, know. I believe that Mr. Gladstone would have supported me in an attempt to make the Budget and its problems familiar to every schoolboy of an age able to undertake the real study of bookkeeping. A nation of bookkeepers would never have allowed that terrible impost of nearly 400 millions to have been placed upon us for interest on the National Debt to which I have drawn public attention. But for that improper, and, as I believe, unnecessary, *rate* of interest, we should find it much easier now to deal with our Services without crippling trade. But now that we are committed to it, I urge that there is only one way to deal with the problem. If the Prime Minister is right in saying that we can tax nothing more, we are faced with

the uncertainty of the excess profits duty, and it is possible that in another year, and upon existing figures, we might still have to borrow to make ends meet. These special revenues and war commitments leave so much in doubt. But I think that accountants would agree with me in saying that it is better to learn at once, as far as possible, our total indebtedness, get the money from the public—not the financier—to pay it off, and institute some such sinking fund as I have indicated forthwith. The Income Tax, however it may be graduated in order to make it more just, ought to be “ear-marked” to the service of the National Debt, and resolutely adhered to until a marked impression has been made upon this overwhelming sum. If the Government would take the people into its confidence, suggest a moderate rate, but easy and popular methods, the people would respond. Parliament might then close that unfortunate chapter in its annals, and turn to other things. If Parliament were to establish some wise scheme, with the suggestion that it should not be reopened, I believe that succeeding Parliaments would respect the arrangement, and carry on the tradition until we were out of debt. When we have got the debt down to £7,200 millions on a 6s. Income Tax, with careful graduations, it would be a simple method to reduce the rate *1d.* for each £100 millions paid off.

If Parliament turns to these things under the guidance of the wise bookkeeper it will find plenty to do. The first, perhaps, would be to take up the challenge of the French politicians, who have so far forgotten themselves as to sneer, like the Kaiser himself, at our contemptible little army. The bookkeeper and the spirit of the League of Nations and Washington should point out that our expenditure is either too much or too little. Let us do what peace and goodwill, not war and diplomacy, demand: go back to the plough and keep what weapons may be necessary there, and save all the cash we can for better work. The warmonger never seems to see that his methods injure his own case. Parliament should be busy educating, feeding, and housing her children, so that, if war should come, she may have intelligent brains and brawny arms ready to take weapons out of the arsenal of the world's league and punish the disturber of the world's peace.

The Post Office presents the problem which is most disturbing to the bookkeeper from the point of view of what he thought were established principles. The management of the Post Office is an indication of a very unexpected and disconcerting set-back in national life. The people had come to believe

that in the Post Office it had really one undertaking, familiar and of comfort to every home, in which service was the prime consideration, not profit. And the figures of many years had caused the people to believe also that the undertaking for service paid better than that for profit; and it has been a bitter disappointment to find that the spirit of the latter has reigned lately, and has dispossessed the anxiety for usefulness among the humbler members of the population. There was so much room for the bookkeeper's investigation and reform that would have added service as well as profit, that the ordinary citizen despairs. For it almost appears as if the desire was to crush national undertakings instead of to develop them. Parliament might well devote some deep attention to this and kindred matters.

Parliament should turn its attention also at once to the most dreadful failure of adequate bookkeeping that local government has yet seen. If we examine the demand note for a general borough rate, we shall see that nearly four-fifths of the money is collected for purposes outside the expenses of the borough council. The county takes for Education nearly as much as the borough spends upon its little wants; and there can be no objection to that until some better system is devised. What I have called the "danger point" in this question lies with the guardians of the poor, and it will remain for adequate bookkeeping to rectify the error into which we have fallen. So-called equalisation has no effective bearing on the question. We all pay on rateable value, and if Greater London were rated upon one basis, and the proceeds were collected into a single fund, no harm would result. But under this system of self-governing boroughs, a vast iniquity is hidden which nothing but plain figures will remove. We may easily see how it works by studying how it would work if, in an average borough, the palaces in the avenues were separated from the "back streets" and the slums. And I may put it bluntly but truly by stating that, in the avenue area, no guardians of the poor would be required, whereas in the slums there would be needed scarcely anything else.

So that, looking at London as a whole, what is being perpetrated by the rich under their various disguises and incognitos is a vast "drive," scarcely appreciated by the sportsmen themselves, of the poor into poverty-stricken areas, where rates have little rateable value to work upon, and where poverty and sickness, unemployment and misfortune, are herded together; the guardians are in despair, and further rating is impossible.

It is as pretty a sum in arithmetic and local government book-keeping as the publicist could desire. But, although I have seen it stated in a certain rich area that a rate equal to two-fifths of that in a slum district would be intolerable, I do not believe that Londoners would object to a new method of solving this dreadful unfairness into which we have drifted. For do not let us forget that this very evil of slumdom, which attracts the destitute as a harbour of refuge, is itself a disease which must be cured; and that the first step to its cure is to make the palatial residents, like the rest, pay for its removal.

Mr. Tawney, in his true and eloquent book, "The Acquisitive Society," has set out in very clear terms some of the abuses and dangers of the modern method of limited liability business. If everybody would read his book they would understand better what I want to say now. If we were to become experts in national and local finance, by a regular study of their budgets, we should be no nearer to the real appreciation of the majority of the businesses which are run by companies which publish accounts. These accounts tell the student nothing concerning the businesses involved: they merely tell him how the profits are engineered for the class of which Mr. Tawney speaks. And I heartily agree with him that this fact is an injustice and a public danger. In singing the praises of good bookkeeping I am not anxious to make the population into financiers content with statements based upon "profits on trading, or manufacture," for most of the things that matter take place before the profits or losses appear. Sometimes we are given a gross profit on one side and gross expenses on the other, but, generally, trading profit suffices. In some reports there is no inkling given as to the commodity dealt in: "raw materials" and "manufactured goods" are the expressions used.

There are a large number of companies which are empowered by Acts of Parliament to supply gas and electricity to the citizens. The accounts of such companies are well set out, and provide very interesting studies. But it is evident that, for various reasons, companies of this sort are becoming out of date. It is almost necessary in a private company to make the charges high enough to secure financial stability. For if a breakdown should occur the public would be greatly inconvenienced. And it seems an anomaly for a private company to run to Parliament when it is in distress. Why should our public services be passed over thus? When such undertakings are carried out by the local authorities it is not necessary to do more than is done in the annual budgets: get as near as possible

to the correct estimates on both sides, and rectify as the years pass. It will be wise in the future to look at all these public services in the aspect which is the largest possible, in order that any national asset available for one locality may be made available for all. The subject will involve much discussion upon the vital question of the public ownership of such commodities as coal, for gas and electricity both depend upon it, and private interests would be better eliminated throughout. This will not be accomplished without a severe struggle, and it would be well if the citizen would make up his mind upon one or two items of policy upon which his future success in national ownership will depend. There must be no cheeseparing or jealousy in the case of the able men who will have to carry through these public works. Labour of all kinds from the highest to the lowest must be well paid, and treated with the same respect that we show to the members of our navy, army, and police. In fact, as we look to them for profits we might conceivably add gratitude to respect. The training for these national posts must be one of our first cares, and science must be brought into all our labours at every point. When we look at these companies which are now run by private persons, what unnecessary items appear in them throughout! Acts of Parliament, obtained, no doubt, at considerable cost, amalgamations and purchase of both shares and commodity, reserve upon reserve, as well as share upon share, all meaning financial ability to meet many needs rather than craftsmanship and science left alone to work. But in spite of all this, let us make sure in any change that no one on the staff shall regret it and feel unhappy under public ownership.

I now come to a class of undertaking of which I feel that England may be proud, in spite of some very serious blots upon its history. Our manufacturers have exhibited sterling qualities during the past 100 years, and we can scarcely blame them so much as we censure their Governments for the outrages of the combination laws. Their work has been of great value, not only to ourselves but to the whole world. But their very success itself has brought upon us vast problems which we are set to solve at the present day. The war has upset the general even tenor of the way of factory and shop, and obscures to some extent the bookkeeper's usual task. Enemy debts and such items do not concern me here: may we never look upon their like again. But what I may surely describe as the excesses subsequent to the war have upset much of what is commonly steady, regular, and useful business. And the result has declared

itself in some astounding difficulties caused by the depreciation in value of raw material and stocks. These excesses of profiteering led to the watering of capital, and now we have to go down that descent into Avernus, which is so easy but so very dreadful. Labour has suffered with the people generally, and perhaps some few of the profiteers have felt the rebound, though they generally take good shelter somewhere. But the country as a whole cannot be satisfied by a mere return to that contest called "the strike": it will make some effort to establish a more secure foothold for Labour within the State. I am not sure that Labour itself recognises all that is involved, or that it will do so until good bookkeeping attains to its rightful place. If Labour does not adopt the principles which underlie the guild idea, it can never undertake world production in the sense that the Capitalist does. The true guild is not primarily a social, but an intense economic function. If we lose sight of its craftsmanship we miss all. And, therefore, it is for Labour to devise the best use to make of the guild principle. For a group of men to form themselves into a guild, without resources, would be found by them very soon to mean the same thing as to be afloat on the ocean on a raft without food.

It seems to me that the guild will come to birth best—I am leaving out the consideration of the State guild, which I have discussed elsewhere—under the protection of the joint stock company and the trade union. I think it would be wise to go slowly and to leave the trade unions to select both opportunity and position as they arise on, say, some threatened strike, lock-out, or dearth of work. It might conceivably arise out of badness of work. The union might then choose the men suitable to lead the guild, provide the funds necessary both for maintenance and financing of work, and carry through jobs just as any other joint stock company would do. *The trade itself would then be taught at the same time.* This being established, the next opportunity might be seized; until in time the guilds themselves would be in a position to succour the old union, and in the end all the Labour in that particular trade would come under the guild flag.

There will be nothing gained by minimising the dimensions of the revolution which would thus be brought about. The defects of the trade union system would be examined and removed by a thorough guild organisation. The worker himself would thus become the person to exact quality and efficiency, under a more humane system, instead of the Capitalist and his staff. And it needs little imagination to perceive the severe struggle

within the ranks of Labour which will take place when the new policy is set on foot. But what a change will come over both the work and the man !

Before leaving the subject of manufacturing and trading concerns, it may perhaps be permitted to refer to the general subject of dividends, and how they are arrived at. It is not to be wondered at that in many cases the directors are extremely careful, and go great lengths in caution in endeavouring to reach security before countenancing a dividend. But these are in the end the dividends which come with special regularity.

The question, however, of quotation on the Stock Exchange is apt to be rather an anxiety and a danger than otherwise to very scrupulous administrations; and the only safe way to reach regularity in dividends in this uncertain world is to act, as many wise companies do, and set apart a certain portion of the earnings for the specific purpose of averaging dividends. This would be a wise precaution for every board to take if uniformity of dividend is considered desirable. The number of debentures and preference shares with fixed interest would leave to the ordinary share a modicum of excitement as to results, but for the immediate betting upon those results set up on the exchanges. So it comes about that, if we are to live under the present system in these matters, it is essential to keep dividends a little below their full possible amounts in order to keep a reserve to average them. But one looks with surprise on the balance sheets of some undertakings, and wonders whether it would not be better to defy quotations, and pay off some debts, reduce goodwills, and so on, at the expense of the distribution. The giant seems sometimes to rejoice under his load.

Depreciations are now a commonplace with all accountants, and probably leave nothing to be desired. But there is a slight difference in accounts when it comes to investments. Some value these annually, and write off any falls that may have occurred; others take them at cost, but give the present value in the margin. From the point of view of a future possible winding up, it is certainly safer to write off the fall in market values; but would it not be a danger, on the other hand, if a rise should occur, to distribute that rise because the profits had been apparently increased by a mere temporary movement on the Stock Exchange? The dividends continue the same throughout presumably. Perhaps the best plan would be to open a reserve account, and correct it when investments mature or are sold. And yet these investments are themselves generally a reserve; they are not a part of the working machinery of the

business, and to institute a reserve of a reserve is perhaps a little hypocritical and pedantic.

The great retail houses are, many of them, more prodigal of figures in their annual accounts. They show us their gross profits on trading, and tell us where it goes to. The gross profit on trading is itself, of course, a subject of prime interest to the alert bookkeeper, for there are involved in it the costs of purchases, the correct deliveries of all goods, the costing of the sales, and perfect stockkeeping. The human element does not become prominent in the purchasing. But the selling involves it, for the staff is a very hive; and no two of the customers, perchance, would be alike in their tastes were it not for the iron rule of fashion. Here I come almost by accident upon one or two psychological facts which upset bookkeeping—unless great care is exercised—almost as it were as by an electric storm. Fashion is such an extraordinary thing that it is usually described as freakish. It is probably due to the human fear of monotony, although it may itself become the monotony of the moment, the tiresomeness of space rather than of time. To do as the world does is an instinct so deeply implanted in human nature that fashion originally became the means of breaking the current by switching it off elsewhere. “For neither,” says the Professor, “in tailoring nor in legislating does man proceed by mere Accident, but the hand is ever guided on by mysterious operations of the mind. In all his Modes, and habilitory endeavours, an Architectural Idea will be found lurking; his Body and the Cloth are the site and the materials whereon and whereby his beautified edifice, of a Person, is to be built. Whether he flow gracefully out in folded mantles, based on light sandals; tower up in high headgear, from amid peaks, spangles and bell-girdles; swell out in starched ruffs, buckram stuffings, and monstrous tuberosities; or girth himself into separate sections, and front the world an Agglomeration of four limbs—will depend on the nature of such Architectural Idea: whether Grecian, Gothic, Later Gothic, or altogether Modern and Parisian or Anglo-Dandiacal. Again, what meaning lies in colour! From the soberest drab to the high-flaming scarlet, spiritual idiosyncrasies unfold themselves in choice of Colour: if the Cut betoken Intellect and Talent, so does the Colour betoken Temper and Heart. In all which, among nations as among individuals, there is an incessant, indubitable, though infinitely complex working of Cause and Effect: every snip of the Scissors has been regulated and prescribed by ever-active Influences, which doubtless to Intelligences of a superior order are neither invisible not illegible.”

There have been attempts on the part of the body politic to guide this decorative idea; and the uniform in its various manifestations has been necessary for many reasons. But the mysterious operations of the mind are now bent, not only upon breaking the current from time to time, and switching off in some new direction such as those characterised so well by Carlyle, but on taking elaborate care that the bookkeeping of these mysterious minds should result in a steady profit. In order to turn the human sheep over the wall into a new meadow the resources of publicity are tapped. And, though we smile as we look back upon sartorial evolution, and shudder sometimes at the new decorations that are proposed—because they are already spun, woven and stocked—we all become obedient to wand-waving of these mysterious minds. The citizen might prefer to smoke and leave expensive fashions alone. But his wife retains the decorative idea; and whatever she smiles out of we all love.

I am not proposing to nationalise any of these things. Our ancestors were sometimes very severe on excesses, yet sober liveries and quiet garbs served but to necessitate colour upon that background. We shall only rivet moderation and good taste upon the people by education, and bookkeeping can merely show what havoc may occur when all the income is put upon one's back.

* * * *

An even more painful sight than that shambling beggar whose garments look a century old is that little figure in faded finery passing upon her way. She wears these clothes, not because they suit her, or because they carry out the second purpose of clothing, warmth, but because in her penury they were perhaps given to her, or were the cheapest things that her little purse could buy.

And so I end where I began. The books of the world do not balance; there must be some leakages somewhere; we are making far too many bad debts. May the Great Accountant point out to us where the errors lie!

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